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Audited Financial Statements

Pope St. John XXIII
National Seminary, Inc.

June 30, 2021

Pope St. John XXIII National Seminary, Inc.

Audited Financial Statements

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GT REILLY
& COMPANY
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424 Adams Street, Milton, MA 02186-4358
T. 617.696.8900 / F. 617.698.1803
www.gtreilly.com

Independent Auditors' Report

To the Trustees
Pope St. John XXIII National Seminary, Inc.

We have audited the accompanying financial statements of Pope St. John XXIII National Seminary, Inc., which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

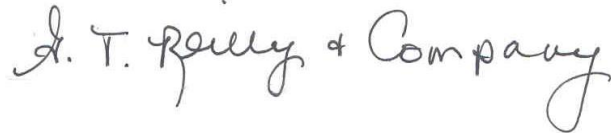
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pope St. John XXIII National Seminary, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2021 on our consideration of Pope St. John XXIII National Seminary, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

G.T. Reilly & Company

Milton, Massachusetts
September 27, 2021

Pope St. John XXIII National Seminary, Inc.

Statements of Financial Position

June 30

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Cash	\$ 644,034	\$ 244,060
Interest and dividends receivable	45,686	33,081
Promises to give, net (Note 5)	68,019	23,658
Grant funds receivable (Note 13)	140,896	-
Inventories	7,500	5,500
Prepaid expenses	7,276	5,011
Investments at fair value (Notes 2 & 3)	4,785,431	3,741,396
Interest in net assets of a foundation (Note 4)	1,105,787	999,579
Property and equipment, net (Note 6)	<u>8,747,385</u>	<u>8,483,663</u>
 TOTAL ASSETS	 <u><u>\$ 15,552,014</u></u>	 <u><u>\$ 13,535,948</u></u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 194,472	\$ 66,378
Conditional grant	30,611	-
Equipment note payable (Note 8)	-	10,207
SBA Paycheck Protection Program loan, forgivable (Note 8)	-	<u>355,600</u>
 TOTAL LIABILITIES	 <u><u>225,083</u></u>	 <u><u>432,185</u></u>
Net Assets (Notes 11 & 12):		
Without donor restrictions:		
Board designated for capital improvements	11,664	11,179
Board designated quasi-endowments	15,045	9,019
Undesignated	<u>8,371,967</u>	<u>7,534,093</u>
	<u>8,398,676</u>	<u>7,554,291</u>
 With donor restrictions	 <u>6,928,255</u>	 <u>5,549,472</u>
	<u>15,326,931</u>	<u>13,103,763</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 15,552,014</u></u>	 <u><u>\$ 13,535,948</u></u>

Pope St. John XXIII National Seminary, Inc.

Statements of Activities

Year Ended June 30

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS & OTHER SUPPORT						
Tuition, net	\$ 1,976,500	\$ -	\$ 1,976,500	\$ 1,882,000	\$ -	\$ 1,882,000
Fundraising - special events	465,421	-	465,421	325,791	-	325,791
Contributions and grants	638,368	689,647	1,328,015	640,898	125,000	765,898
Investment interest and dividends	1,719	165,682	167,401	6,053	141,580	147,633
Miscellaneous income	311	-	311	5,632	-	5,632
Contributed services (Note 10)	182,140	-	182,140	213,601	-	213,601
SBA Paycheck Protection Program loan forgiveness (Note 8)	355,600	-	355,600	-	-	-
Net realized and unrealized gains (losses) on investments (Note 2)	8,824	990,485	999,309	722	(81,349)	(80,627)
Interest in change in net assets of a foundation (Note 4)	-	306,208	306,208	-	9,759	9,759
Net assets released from restrictions through satisfaction of use restrictions (Note 11)	773,239	(773,239)	-	254,500	(254,500)	-
TOTAL REVENUES, GAINS & SUPPORT	4,402,122	1,378,783	5,780,905	3,329,197	(59,510)	3,269,687
EXPENSES						
Program	1,824,447	-	1,824,447	1,820,527	-	1,820,527
General and administrative	1,396,615	-	1,396,615	1,333,758	-	1,333,758
Fundraising and development	336,675	-	336,675	331,318	-	331,318
TOTAL EXPENSES	3,557,737	-	3,557,737	3,485,603	-	3,485,603
INCREASE (DECREASE) IN NET ASSETS	844,385	1,378,783	2,223,168	(156,406)	(59,510)	(215,916)
NET ASSETS AT BEGINNING OF YEAR	7,554,291	5,549,472	13,103,763	7,710,697	5,608,982	13,319,679
NET ASSETS AT END OF YEAR	\$ 8,398,676	\$ 6,928,255	\$ 15,326,931	\$ 7,554,291	\$ 5,549,472	\$ 13,103,763

Pope St. John XXIII National Seminary, Inc.

Statements of Functional Expenses

Year Ended June 30

	2021				2020			
	Program Services	General and Administrative	Fundraising and Development	Total	Program Services	General and Administrative	Fundraising and Development	Total
Salaries and benefits	\$ 962,846	\$ 1,038,120	\$ 177,466	\$ 2,178,432	\$ 1,050,873	\$ 1,018,788	\$ 182,994	\$ 2,252,655
Contract services	11,788	57,495	-	69,283	17,701	64,511	-	82,212
Professional services	-	30,600	-	30,600	-	27,771	-	27,771
Admissions	5,940	-	-	5,940	15,853	-	-	15,853
Travel and entertainment	14,856	4,180	20	19,056	15,451	8,593	707	24,751
Utilities	203,672	38,189	12,730	254,591	176,700	33,131	11,044	220,875
Technology	-	-	3,754	3,754	-	-	3,729	3,729
Property maintenance	120,295	22,555	7,518	150,368	62,861	11,786	3,929	78,576
Interest expense and service fees	11,475	2,152	717	14,344	16,998	3,187	1,062	21,247
Office	13,887	22,415	1,117	37,419	15,287	19,701	1,985	36,973
Depreciation	239,118	44,835	14,945	298,898	219,676	41,189	13,730	274,595
Publicity	-	-	20,952	20,952	-	-	17,544	17,544
Library	38,107	4,176	110	42,393	34,691	4,978	110	39,779
Kitchen	134,662	25,249	8,416	168,327	135,607	25,426	8,475	169,508
Fundraising events and activities	-	-	88,930	88,930	-	-	86,009	86,009
Student assistance	37,637	-	-	37,637	50,412	-	-	50,412
Operational supplies	29,914	90,283	-	120,197	1,602	74,112	-	75,714
Other	250	16,366	-	16,616	6,815	585	-	7,400
	\$ 1,824,447	\$ 1,396,615	\$ 336,675	\$ 3,557,737	\$ 1,820,527	\$ 1,333,758	\$ 331,318	\$ 3,485,603

Pope St. John XXIII National Seminary, Inc.

Statements of Cash Flows

For the Year Ended June 30

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,223,168	\$ (215,916)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	298,898	274,595
Donation of investments	(19,325)	(5,135)
Net realized and unrealized (gains) losses on investments	(999,309)	80,627
Interest in change in net assets of a foundation	(306,208)	(9,759)
Transfer of assets from a foundation	200,000	-
SBA Paycheck Protection Program loan forgiveness	(355,600)	
Changes in operating assets and liabilities:		
Promises to give, net	(44,361)	105,905
Grant funds receivable	(140,896)	-
Interest and dividends receivable	(12,605)	4,692
Prepaid expenses	(2,265)	8,830
Inventories	(2,000)	1,000
Conditional grant	30,611	-
Accounts payable and accrued expenses	128,094	(18,382)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>998,202</u>	<u>226,457</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(562,620)	(88,202)
(Purchases) redemptions of investments, net	<u>(25,401)</u>	<u>(265,462)</u>
NET CASH APPLIED TO INVESTING ACTIVITIES	<u>(588,021)</u>	<u>(353,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable to affiliate	-	(64,930)
Payments on equipment note payable	(10,207)	(11,293)
SBA Paycheck Protection Program loan	<u>-</u>	<u>355,600</u>
NET CASH (APPLIED TO) PROVIDED FROM FINANCING ACTIVITIES	<u>(10,207)</u>	<u>279,377</u>
NET INCREASE IN CASH	399,974	152,170
CASH AT BEGINNING OF YEAR	<u>244,060</u>	<u>91,890</u>
CASH AT END OF YEAR	<u>\$ 644,034</u>	<u>\$ 244,060</u>

Supplemental Disclosure of Cash Flow Information

Interest paid	<u>2,214</u>	<u>\$ 11,091</u>
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Notes to Financial Statements

June 30, 2020

Note 1 – Principal Activity and Summary of Significant Accounting Policies

Principal Activity – The Seminary is a Roman Catholic, professional and graduate theological school dedicated primarily to the intellectual, cultural and spiritual preparation of second-career seminarians for the priesthood.

Financial Statement Presentation – As a not-for-profit organization, the Seminary presents in its statement of financial position and its statement of activities and changes in net assets two classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are available for use in general operations and not subject to donor restrictions. At its discretion, the Board of Trustees may designate net assets without donor restrictions for specific purposes. Net assets have been designated by the Board for capital improvements and as amounts quasi-endowed to provide a permanent source of income as disclosed in Note 12.

Net Assets With Donor Restrictions – Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time, the occurrence of events, or by the use of the funds as specified by the donor. Other donor-imposed restrictions may be perpetual in nature where the donor stipulates that the funds be maintained in perpetuity.

Donor-restricted support is recorded as "net assets with donor restrictions" when received or pledged. When a temporary donor-imposed restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, related amounts of "net assets with donor restrictions" are reclassified to "net assets without donor restrictions" and reported in the statement of activities as "net assets released from restrictions" (see Note 11).

Contributions made with donor-imposed restrictions to maintain the principal in perpetuity (endowments), while allowing the use of income generated therefrom, are also classified as "net assets with donor restrictions". Income derived from the investment of these perpetual net assets is reported as an increase in "net assets without donor restrictions" or "net assets with donor restrictions" depending on the terms of the donor instrument. Unrealized gains or losses on perpetual net assets are reported as increases or decreases in "net assets with donor restrictions" unless the donor explicitly states otherwise.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Revenue Recognition – The Seminary recognizes revenue in accordance with FASB Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers". The standards are based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the standards, among other things, revenue is recognized at a point in time (when), or over time (as), a performance obligation is satisfied.

Note 1 – Principal Activity and Summary of Significant Accounting Policies (Cont.)

The revenue standards do not apply to revenues and support that are covered under other accounting standards such as contributions and investment earnings, gains and losses. The Seminary's revenues and related methods of recognition are summarized as follows:

Tuition Revenue – The Seminary recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, the students pay room and board to live on premises during the school year. Contracts for tuition, room, and board are combined into a single portfolio of similar contracts. Payment for tuition, room and board is required before the start of the academic year. All amounts received prior to the commencement of the academic year are recorded as liabilities and revenue recognition is deferred to the applicable period. Scholarships provided to students are recorded as reductions to tuition, room and board at the time the revenue is recognized.

Fundraising - Special Events – The Seminary recognizes revenue from fundraising-special events once the event has taken place.

Contributions – The Seminary recognizes contributions in accordance with Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, “*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*”. The ASU is intended to assist entities in evaluating whether transactions should be accounted for, and reported as, contributions or as exchange transactions, and in determining whether a contribution is conditional or unconditional.

The ASU clarifies that a contribution represents a nonreciprocal transaction where the grantor or donor does not receive a benefit of commensurate value in return for the assets or resources provided to the recipient. In an exchange transaction, the resource provider receives some thing or benefit of commensurate value in return for the resources provided. Exchange transactions include instances where a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer receiving the benefit. However, where the benefit or potential benefit is received by the public or segments thereof, and the resource provider (such as a foundation, government agency, corporation or other entity), only receives indirect or incidental benefit that is not of commensurate value, the transaction is considered a contribution for accounting purposes. Distinguishing between contributions and exchange transactions determines the appropriate accounting and reporting for a transaction.

Conditional Grants and Contributions – Contributions, grants or other support that are conditional are not recognized in the statement of activities until they become unconditional, that is, at the time when the donor or grantor-imposed conditions on which they depend are substantially met or barriers are overcome. Funds received in advance of satisfying the conditions are reported as liabilities.

Promises to Give – Unconditional promises to give cash or other assets to the Seminary are recorded as assets receivable when the pledges are made and documented. Conditional promises to give are recorded only when the specified conditions are substantially met. Unconditional promises to give that are expected to be collected over a period of years are recorded at the present value of their estimated future cash flows. Amortization of such discounts is included in support. Recorded promises to give to the Seminary are reported in the statement of financial position net of an estimated allowance for uncollectable amounts. The allowance is recorded via a provision charged against support. On a periodic basis, management evaluates the promises to give to the Seminary and establishes or adjusts the allowance to an amount that it believes will be adequate to absorb possible losses on promises that may become uncollectible, based on evaluations of the individual pledges. Recorded amounts are written off and charged against the allowance or against support when management believes that the collectability of the specific pledge is unlikely. See Note 5 for a summary of recorded promises to give.

Note 1 – Principal Activity and Summary of Significant Accounting Policies (Cont.)

Contributed Services – The Seminary recognizes contributions of services received as support in the statement of activities with an equal amount recognized as expense if the services provided require special skills and would need to be purchased by the Seminary if not contributed (see Note 10).

Cash – The Seminary considers short-term, highly-liquid investments with original maturities of three months or less, to be cash equivalents for presentation purposes in the statement of financial position and the statement of cash flows.

Inventories – Inventories are reported at the lower of cost or net realizable value based on the first-in, first-out (FIFO) method, and consist of books and related supplies.

Investments – The Seminary reports investments in marketable securities and pooled funds at fair value. Increases or decreases in the fair value of investments are reflected currently in the statement of activities as net realized and unrealized gains (losses) on investments (see Notes 2 & 3).

Accounting for Assets Held by Others – The Seminary recognizes as an asset its interest in the net assets of other related organizations who hold funds that have been donated for the benefit of the Seminary. The asset amount is adjusted for the Seminary's share of the change in the related organization's net assets via a charge or credit to the Seminary's statement of activities. Transfers of funds from the related organization are reported as reductions to the Seminary's recorded interest (see Note 4).

Property and Equipment – Property and equipment are stated at cost less accumulated provisions for depreciation. Property contributed by the Roman Catholic Archdiocese of Boston in 1997 is stated at the net book value on the records of the Archdiocese at the time of the contribution. Maintenance and repairs are expensed as incurred, whereas major additions and purchases are capitalized (see Note 6).

Depreciation has been calculated and provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are summarized as follows:

	<u>Estimated Useful Lives</u>
Building and building improvements	15 - 40 years
Furniture and equipment	5 years
Motor vehicles	5 years

Functional Allocation of Expenses – The costs and expenses of the Seminary have been summarized and presented in the statement of activities by function: program, general and administrative, and fundraising and development. The statement of functional expenses presents the natural classification detail of expenses by function. Costs and expenses related directly to a program or a supporting function are charged to that program or function, while other expenses are allocated based on reasonable methods which include square footage, time spent and management's best estimates.

Income Tax – The Seminary is included in the United States Catholic Conference Group Ruling and in the Official Catholic Directory and is therefore exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in these financial statements (see Note 14).

Evaluation of Subsequent Events – Management has evaluated subsequent events involving the Seminary for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2021 up through September 27 2021, the date the accompanying financial statements were available to be issued.

Note 2 – Investments

Investments consist of the following at June 30:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ 3,306,367	\$ 4,785,149	\$ 3,261,658	\$ 3,741,227
Common Stock	35	282	18	169
	<u>\$ 3,306,402</u>	<u>\$ 4,785,431</u>	<u>\$ 3,261,676</u>	<u>\$ 3,741,396</u>

The majority of the Seminary's investments represent unit holdings in the Common Investment Fund established by the Roman Catholic Archbishop of Boston (RCAB) to provide common investment pools in which the Seminary and other related organizations may participate. The participants own units based upon a per-unit value at the time of purchase. The Common Investment Fund incurs service fees from the RCAB for administrative and clerical services performed on behalf of the fund. These fees are reflected in the calculation of the value per unit. Dividend income from the Seminary's investments totaled \$166,672 and \$142,375 for the years ended June 30, 2021 and 2020, respectively.

The Common Investment Fund invests nearly all of its funds in the RCAB Collective Investment Partnership (the "Investment Partnership"), the underlying investments of which are primarily equity and fixed-income securities (U.S. Government and agency securities, asset-backed securities and corporate bonds) owned either directly or indirectly through mutual funds and private entities. The make-up of the Investment Partnership's investments at June 30, 2020 (the most recent audited financial statement of the Partnership) was: 35% domestic common stocks, 21% fixed-income securities, 17% private investments and 27% mutual funds and other investments.

The Seminary's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows during the years ended June 30:

	<u>2021</u>	<u>2020</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ 999,213	\$ (81,587)
Common Stock	<u>96</u>	<u>960</u>
	<u>\$ 999,309</u>	<u>\$ (80,627)</u>

Risks and Uncertainties – The Seminary's investments in the Common Investment Fund and common stock are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with these investment securities, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities.

Note 3 – Fair Value Measurements

The Seminary measures the fair values of assets and liabilities at an estimated exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The Seminary classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

Note 3 – Fair Value Measurements (Cont.)

The Seminary measures the fair value of investments in certain entities that do not have a quoted market price based on the investees' calculated net asset value (NAV) per share or its equivalent. The Seminary reports its investments at the net asset value per unit on the valuation day.

The Seminary's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2021 and 2020, by level within the fair value hierarchy, are presented in the table below. Financial assets measured at fair value on a nonrecurring basis, such as recorded promises to give to the Seminary, are excluded from the table.

	Level 1	Level 2	Level 3	Total
<u>June 30, 2021</u>				
Common Stock	\$ 282	\$ -	\$ -	\$ 282
Units of Common Investment Fund, measured at net asset value				<u>4,785,149</u>
Total investments at fair value				<u>\$ 4,785,431</u>
 <u>June 30, 2020</u>				
Common Stock	\$ 169	\$ -	\$ -	\$ 169
Units of Common Investment Fund, measured at net asset value				<u>3,741,227</u>
Total investments at fair value				<u>\$ 3,741,396</u>

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The methods used for valuing the assets and liabilities are not necessarily an indication of the risks associated with those assets.

A summary of the methods used to estimate the fair value of investments is as follows:

Unit Values in the Common Investment Fund (CIF) – This investment does not have quoted prices in active markets, or significant other observable inputs that have quoted market prices, although the Seminary can redeem its investment at the net asset value per share. The Seminary estimates the net asset value of its unit holdings in the CIF based on the Seminary's share of the underlying net assets of the investment portfolio that consists of actively-traded equities, bonds and money market funds.

Common Stock – The investments are valued at the closing price reported on the active market on which individual securities are traded, and they are classified within Level 1 of the valuation hierarchy.

Note 4 – Interest in the Catholic Community Fund of the Archdiocese of Boston, Inc. (“Foundation”)

The Seminary is the beneficiary of restricted donations collected on its behalf by the Foundation, a related party. As discussed in Note 1, “Accounting for Assets Held by Others”, the Seminary has recorded as an asset its interest in the Foundation's net assets, approximately \$1,100,000 at June 30, 2021 (\$1,000,000 at June 30, 2020). The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of approximately \$306,000 in 2021 (approximately \$10,000 in 2020). Transfer of funds from the Foundation to the Seminary totaled \$200,000 for the year ended June 30, 2021. There were no transfers of funds from the Foundation to the Seminary for the year ended June 30, 2020.

Note 5 – Promises to Give

Included in promises to give are the following unconditional promises to give to the Seminary, summarized by use-restriction:

	<u>2021</u>	<u>2020</u>
Capital renovations	\$ 14,200	\$ 22,400
Student scholarships	60,000	-
Unrestricted	<u>704</u>	<u>3,758</u>
Unconditional promises to give before provision for uncollectible pledges	74,904	26,158
Less unamortized discount	(4,135)	-
Less provision for uncollectible pledges	<u>(2,750)</u>	<u>(2,500)</u>
	<u>\$ 68,019</u>	<u>\$ 23,658</u>

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 44,904	\$ 23,658
One to two years	<u>30,000</u>	<u>-</u>
	<u>\$ 74,904</u>	<u>\$ 23,658</u>

Unconditional promises to give that are expected to be collected after one year have been discounted at 5.95%.

Note 6 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 116,140	\$ 116,140
Building	4,909,692	4,909,692
Building improvements	5,647,274	5,584,121
Furniture and equipment	1,940,470	1,612,537
Construction in progress	<u>175,535</u>	<u>4,000</u>
	12,789,111	12,226,490
Less accumulated provision for depreciation	<u>4,041,726</u>	<u>3,742,827</u>
	<u>\$ 8,747,385</u>	<u>\$ 8,483,663</u>

Depreciation expense totaled \$298,898 and \$274,595 for the years ended June 30, 2021 and 2020, respectively.

Note 7 – Related Party Transactions

Tuition Revenue – The Seminary received \$193,500 in 2021 (\$108,000 in 2020) from the Archdiocese of Boston, representing tuition for registered Boston students.

Insurance – During the years ended June 30, 2021 and 2020, the Seminary was charged \$312,567 and \$339,023, respectively, for health, life, disability, and property insurance administered by the Roman Catholic Archdiocese of Boston, A Corporation Sole.

Note 7 – Related Party Transactions (Cont.)

Contributions – During the years ended June 30, 2021 and 2020, the Seminary received approximately \$83,000 and \$79,000, respectively, in contributions from several members of its Board of Trustees.

Line of Credit – On June 1, 2019, the Seminary entered into a \$300,000 line of credit agreement with the Archdiocese of Boston. The applicable rate of interest on any outstanding balance is charged at 3.75% per annum. The agreement is in effect until May 30, 2022. There are no outstanding borrowings at June 30, 2021 or 2020.

Note 8 –Notes Payable

Equipment Note – On May 31, 2017, the Seminary entered into a promissory note for \$43,661, with an interest rate of 5.95%, to facilitate the purchase of equipment. Under the terms of the agreement, the Seminary made monthly principal and interest payments of \$1,022. The note was paid in full on March 30, 2021.

SBA Paycheck Protection Program Loan and Forgiveness - In April of 2020, the Seminary obtained a loan from a financial institution in the amount of \$355,600 under the Paycheck Protection Program (“PPP”) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the note agreement, the loan’s repayment was guaranteed by the Small Business Administration (“SBA”), it accrued interest at 1%, and it was forgivable and payable by the SBA if the Seminary incurred and paid eligible expenses such as payroll and other specified costs as defined in the CARES Act. The Seminary applied for the loan’s forgiveness under the terms of the agreement and in April of 2021 it was notified by the SBA that the loan and accrued interest was repaid and the debt has been forgiven in full. As a result of the forgiveness, the loan amount has been removed as a liability via a credit to support in the statement of activities and changes in net assets as “SBA Paycheck Protection Program loan forgiveness” in the amount of \$355,600.

Note 9 – Employee Pension Plan

The Seminary participates in the Archdiocese of Boston 401(k) defined contribution plan. The Seminary contributes a matching contribution subject to formulas defined in the plan document. Contributions by the Seminary approximated \$29,000 and \$32,000 for the years ended June 30, 2021 and 2020, respectively. Each eligible employee may defer up to 100% of compensation subject to limits on the maximum amount allowed by law.

Note 10 – Contributed Services

For the years ended June 30, 2021 and 2020, the Seminary recorded contributions in the amount of \$182,140 and \$213,601, respectively, for services performed by religious personnel who serve as faculty. These amounts represent the differences between the actual compensation paid, and the estimated compensation that would be paid to laypersons performing the same services (see Note 1).

Note 11 – Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions:

	<u>2021</u>	<u>2020</u>
Temporary in Nature	\$ 2,183,974	\$ 805,191
Perpetual in Nature	4,744,281	4,744,281
	<u>\$ 6,928,255</u>	<u>\$ 5,549,472</u>

Note 11 – Net Assets With Donor Restrictions (Cont.)

Restricted net assets which are temporary in nature at June 30 consist of the following:

	<u>2021</u>	<u>2020</u>
Restricted for:		
Student scholarships	\$ 37,953	\$ 25,305
Accent Reduction Program	20,000	20,000
Adoration Chapel	25,000	25,000
Exercise facilities	10,000	10,000
Operations	52,068	33,097
Needy students	16,561	15,034
Spanish language instruction	4,767	4,767
Theology Chair	-	3,320
Catholic community	181,623	75,415
Pre-theology program	-	7,056
Academic Dean Faculty Chair	-	7,561
Pastoral ministry	-	9,914
Critical financial needs	15,000	15,000
Promise for Tomorrow case statement	69,201	69,201
Student Needs	18,840	-
Strategic Plan	50,000	-
Foreign Ministry Scholarships	55,865	-
Capital Improvements	152,090	-
	<u>708,968</u>	<u>320,670</u>
Unrealized gains and losses on investments related to restricted endowment net assets (see below)	<u>1,475,006</u>	<u>484,521</u>
	<u>\$ 2,183,974</u>	<u>\$ 805,191</u>

Restricted net assets which are perpetual in nature (endowments) at June 30 consist of the following:

	<u>2021</u>	<u>2020</u>
Income restricted for:		
Student scholarships	\$ 236,321	\$ 236,321
Academic Dean Faculty Chair	1,000,000	1,000,000
Rector fund for needy students	35,000	35,000
Theology Chair	346,961	346,961
Pastoral Ministry	800,000	800,000
Pre-Theology Program	894,512	894,512
Operations	489,138	489,138
Promise for Tomorrow case statement	18,183	18,183
Interest in endowment net assets of a foundation (Note 4)	924,166	924,166
	<u>\$ 4,744,281</u>	<u>\$ 4,744,281</u>

Note 11 – Net Assets With Donor Restrictions (Cont.)

During the years ended June 30, net assets were released from donor restrictions by incurring expenses, or by the occurrence of other events satisfying the restricted purposes, or by donors removing the restrictions, as follows:

	<u>2021</u>	<u>2020</u>
Capital Improvements	\$ 47,910	\$ -
Foreign Ministry Scholarships	30,000	-
Operating expenses	-	30,000
Spanish language instruction	-	59,500
Theology Chair	18,441	10,000
Pre-theology Chair	46,059	25,000
Academic Dean Faculty Chair	51,101	30,000
Pastoral ministry	44,786	20,000
Lounge renovation	-	80,000
Expenditures caused by COVID-19 pandemic:		
Property and equipment upgrades	451,852	-
Personal protective equipment	57,590	-
Student grants	25,500	-
	<u>\$ 773,239</u>	<u>\$ 254,500</u>

Note 12 – Endowments and Quasi-Endowments

The Seminary's endowments consist of various funds established for the support of various activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Seminary has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Seminary to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not considered restricted in perpetuity and is regarded as "net appreciation", is considered temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported in restricted net assets. There were no significant deficiencies at June 30, 2021 or 2020.

Endowment Investment Policy – The Seminary has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns, thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity or for donor-specified periods. Under the Seminary's investment policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Note 12 – Endowments and Quasi-Endowments (Cont.)

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Seminary relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), and current yield (interest and dividends). From the time when the Seminary was organized, the Seminary has invested its endowment investment portfolio in the Common Investment Fund which, in turn, invests in the Investment Partnership (see Note 2). The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Investment Partnership. The Investment Committee's investment rationale is to include an array of different strategy investment managers for the Investment Partnership's portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

Changes in Endowment Net Assets - Endowment net assets and changes therein as of and for the years ended June 30 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary in Nature	Perpetual in Nature	
<u>For the year ended June 30, 2021:</u>				
Endowment net assets at beginning of year	\$ 9,019	\$ 661,222	\$ 4,744,281	\$ 5,405,503
Interest in change in net assets of a foundation	-	306,208	-	306,208
Interest and dividends	391	165,682	-	165,682
Realized and unrealized gains (losses) on investments	5,635	990,485	-	990,485
Appropriation of endowment assets for expenditure	-	(402,910)	-	(402,910)
Endowment net assets at end of year	\$ 15,045	\$ 1,720,687	\$ 4,744,281	\$ 6,464,968

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary in Nature	Perpetual in Nature	
<u>For the year ended June 30, 2020:</u>				
Endowment net assets at beginning of year	\$ 8,654	\$ 706,232	\$ 4,744,281	\$ 5,450,513
Interest in change in net assets of a foundation	-	9,759	-	9,759
Interest and dividends	356	141,580	-	141,580
Realized and unrealized gains on investments	9	(81,349)	-	(81,349)
Appropriation of endowment assets for expenditure	-	(115,000)	-	(115,000)
Endowment net assets at end of year	\$ 9,019	\$ 661,222	\$ 4,744,281	\$ 5,405,503

Note 13 – Financial Instruments and Concentrations of Credit Risk

The Seminary's financial instruments that potentially subject it to concentrations of credit risk consist of cash, promises to give, a grant receivable, investments, and a beneficial interest in the net assets of a foundation. A summary of financial instrument and other concentrations follows.

Cash - The Seminary maintains its cash accounts in high quality financial institutions. At times, the amounts on deposit at any institution are in excess of insured limits. At June 30, 2021, based on bank balances, there was approximately \$385,000 of cash in excess of FDIC insurance limits.

Note 13 – Financial Instruments and Concentrations of Credit Risk (Cont.)

Investments - As more fully discussed in Note 2, substantially all of the Seminary's investments consist of Common Investment Funds administered by the Roman Catholic Archdiocese of Boston (RCAB).

Beneficial Interest in Foundation - As more fully discussed in Note 4, the Seminary's beneficial interest in the net assets of the Catholic Community Fund approximated \$1,100,000 at June 30, 2021.

Promises to Give - The Seminary's recorded promises to give are dispersed among various corporate and individual contributors throughout the region. At June 30, 2021, approximately \$60,000 or 80% of the gross total is pledged from one donor.

Covid Related Grants - During fiscal year 2021, under the CARES Act, the Seminary was awarded a Higher Education Emergency Relief Fund grant by the US Department of Education in the approximate amount of \$478,000 as well as approximately \$87,000 of grants for student financial assistance and costs incurred by the Seminary due to the Covid pandemic. Approximately \$425,000 of such grant funds have been recognized as support in the statement of activities for the year ended June 30, 2021. At June 30, 2021 approximately \$141,000 of such funds are recorded as grant funds receivable.

Note 14 – Income Taxes

The Seminary recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Seminary's management has reviewed the tax positions for open periods and determined that no provision for income tax is required in the Seminary's financial statements.

Note 15 – Liquidity and Sufficiency of Net Assets

A comparison of the Seminary's financial assets and available resources to its donor restricted net assets is as follows:

	<u>2021</u>	<u>2020</u>
Financial assets	\$ 5,658,000	\$ 4,042,000
Other resources (line of credit)	300,000	300,000
Total financial assets and resources	<u>5,958,000</u>	<u>4,342,000</u>
Donor restricted net assets	6,928,000	5,549,000
Less interest in restricted net assets of the Catholic Community Fund	<u>(1,100,000)</u>	<u>(1,000,000)</u>
Net donor restricted	<u>5,828,000</u>	<u>4,549,000</u>
Sufficiency (insufficiency) of financial assets related to donor restricted net assets	<u>\$ 130,000</u>	<u>\$ (207,000)</u>

At June 30, 2021 the excess of the Seminary's financial assets over its donor restricted net assets, \$130,000, represents the only amounts available for general expenditure within one year. At June 30, 2020, due to the insufficiency of financial assets in relation to donor restricted net assets, the Seminary had no liquid assets available for general expenditure.

The Seminary's total financial assets approximate \$5,658,000 at June 30, 2021, including its investment portfolio of \$4,785,000, which primarily relates to its donor restricted net assets. However, at June 30, 2021 it has donor restrictions on its net assets of approximately \$5,828,000, excluding its interest in the restricted net assets of the Catholic Community Fund (Note 4), resulting in an insufficiency in its investment portfolio of approximately \$1,043,000. Similarly, at June 30, 2020, the Seminary had an insufficiency in its investment portfolio of approximately \$808,000.

Note 15 – Liquidity and Sufficiency of Net Assets (Cont.)

This situation results from the Seminary in effect “borrowing” funds from its endowment investments to fund its operations in recent years, with the intention of replenishing those funds along with an appropriate interest charge. Amounts borrowed from the endowment investments approximate \$629,000 and \$667,000 at June 30, 2021 and 2020, respectively.

The Seminary's cash flows have seasonal variations due to the nature and timing of tuition billings and various development events for fundraising. Most of the Seminary's cash inflow is received at the beginning of the school year, subsequent to its fiscal year-end. Management anticipates that the Seminary's tuition revenues and support for the next fiscal year will be sufficient to meet the majority of its general expenditures. It also expects that the Seminary will not need to “borrow” from its endowment investments to meet its expenditures in the next fiscal year, primarily as a result of the \$355,600 PPP loan it received, which has been forgiven (Note 8), and the approximate \$565,000 of Covid-related grants it was awarded by the US Department of Education (Note 13) in addition to a \$50,000 grant from a private foundation.

Management will continue to focus on improvements to the Seminary's institutional advancement program to increase contributions, improvements to its recruiting process to increase enrollment, and it is determining the feasibility of generating additional revenue sources such as from the leasing of available grounds to a third party.

Note 16 – Coronavirus Pandemic

Effects and Response in 2021 – During 2021, the Seminary operated under state mandated restrictions in response to the Covid 19 pandemic, which did not affect its revenues. As more thoroughly discussed in Note 8, management obtained a PPP loan in the amount of \$355,600, which was extinguished and forgiven by the SBA in 2021. The Seminary was also awarded approximately \$565,000 of Covid-related grants from the US Department of Education as discussed in Note 13.

Subsequent Events and Uncertainties Regarding Pandemic – Effective May 29, 2021, due to the initial success of the vaccination program and the continued decline in new virus cases and deaths, the governor of Massachusetts declared the state reopened and lifted substantially all of its previous restrictions, enabling businesses, schools and other organizations to return to operations without restrictions.

However, there still remains uncertainties regarding the virus such as the reduced rate of vaccinations in the state, the long-term efficacy of vaccinations and the potential need for booster shots and the current surge of the Delta variant of the virus, among other things. As was the case in fiscal 2021, management does not anticipate any significant adverse effects on the operations of the Seminary or its financial position. However, it is uncertain at this time what additional adverse effects the pandemic may have, if any, on the general population, businesses and other organizations and potentially on the future revenues, operating results and financial position of the Seminary.



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Trustees
Pope St. John XXIII National Seminary, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Pope St. John XXIII National Seminary, Inc., which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pope St. John XXIII National Seminary, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pope St. John XXIII National Seminary, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pope St. John XXIII National Seminary, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Seminary's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

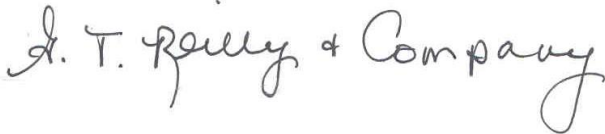
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pope St. John XXIII National Seminary, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Seminary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

G.T. Reilly & Company

Milton, Massachusetts
September 27, 2021